DCC Detailed Impact Assessment Questions: SECMP0016 'Consideration of "Maximum Credit" value in credit cover calculation'

This Detailed Impact Assessment was requested on 05th August 2016

Responding to this Detailed Impact Assessment request

SEC Section D6.9 and D6.10 sets out the requirements on the DCC to undertake analysis requested by the Modification Working Group. The requirements are:

D6.9 At the request of a Working Group established pursuant to this Section D6 in respect of a Modification Proposal, the DCC shall prepare an analysis of how the following matters would be affected if that Modification Proposal were to be approved:

(a) the ability of the DCC to discharge its duties and comply with its obligations under the Relevant Instruments; and/or

(b) the extent to which changes would be required to DCC Systems, User Systems and/or Smart Metering Systems; and (if so) the likely development, capital and operating costs associated with such changes and any consequential impact on the Charges.

D6.10 The DCC shall provide such further explanation of any analysis prepared pursuant to Section D6.9 as the Working Group may reasonably require.

This form sets out the questions that the Working Group require responses to in on in order to help further inform the progression of the Modification Proposal.

Please submit the complete DCC Detailed Impact Assessment to secas@gemserv.com.

Your Details – Key contact(s) on who to raise questions with regarding the response

Name	Adam Pearce
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SECMP0016 DCC Detailed Impact Assessment Questions

General

Q1. Provide a brief summary of the impact of the change on the DCC?
Financial impact: 1. **Increase short term cash flow risk (small).** DCC would have a reduced Credit Provision on which to draw down in the event of non-payment of invoice(s) by Parties. In turn this increases the risk of a short-term cash flow shortfall potentially impacting DCC's ability to pay its Service Providers prior to the socialising of the bad debt across relevant Parties (those required to pay Fixed Charges). For clarity, there is no long-term risk to the financial stability of Smart DCC Ltd as the potential risk of non-payment of invoices resides with the relevant Parties. Business process impact: 2. **Change to Credit Cover Review.** Minor changes would be required to DCC's ongoing Credit Cover Review processes and methodology. System impact: **No impact on Systems.**

Impact and Changes required

Q2 Is the DCC Impacted by this Modification Proposal?	
Proposed	Yes
See answer to question 3 and Annex A to this Impact Assessment, containing analysis of the financial impact of the new Credit Cover calculation.	

Q3. Which DCC systems and process are impacted by this change?	
Area/Process/Documentation	Description of impact
Reduced Credit Cover Provisions held by DCC	DCC will have reduced Credit Cover Provisions on which to draw down funds in order to make payments to its Service Providers in the event of a Party defaulting on its obligation to pay DCC invoices,

	In event of non-payment of invoice(s) by Parties, DCC may face short-term cash flow shortfalls which may necessitate utilising finance arrangements that are in place as per the terms of the Licence and SEC, including: • Parent Company Guarantee *DCC Licence Condition 26* £10m Deed of Guarantee and Indemnity • Keepwell Deed *DCC Licence Condition 26* Additional financial support agreement with DCC's Parent Company providing access to an additional short-term funding of £5m. This is currently in the process of being increased to £15m due to the increase in DCCs ongoing liabilities to Service Providers. • Socialising of Bad Debt across Compliant Parties *SEC K9.4* Bad Debt would be allocated to relevant Parties as a proportion of their market share at that point in time. Parties face increased risk of socialised bad debt through another Party's non-payment of an invoice(s), noting that the Parties perceived to be most 'at risk' of default will generally still be required to provide a higher level of Credit Cover in relation to their liability. Annex A shows the calculations showing the reduction in Credit Cover Provisions available to DCC as well as the values of increased risk to Parties.
Credit Cover Review	Minimal changes are required to ongoing processes as DCC will continue ongoing review of Credit Cover provisions in the same manner that it does currently. Changes are required to the calculation methodology which will need to be communicated to all effected Parties. Where applicable, Parties will need to arrange new Credit Cover facilities (i.e. Letter of Credit, Bank Guarantees, etc.). DCC propose that if implemented, this change is implemented in line with the start of the next Regulatory Year to reduce administrative effort for both DCC and effected Parties

System changes required

Q4. What changes will be required by the DCC to implement this Modification?	
Area/Process/Documentation	Description of necessary changes
No impact on Systems	No changes to DCC Systems are required as a result of this change.

Implementation and Testing requirements

Q4a. How much lead time would you require to implement the Proposed Solution from Authority approval?	**Two months**
If approved, DCC would require two months in order to: 1. Recalculate Credit Cover requirements (subsequent to testing it's model) and communicate these to all Parties; 2. Re-arrange non-cash provisions with relevant Parties; and 3. Arrange refund of cash deposits to relevant Parties.	
Q4b. Will the DCC need to undertake any testing as part of implementing this Modification?	**Yes**
DCC will test that the changes to its Credit Cover Calculation model accurately calculate any new levels of Credit Cover. As the Credit Cover Review process is an existing operational function no testing will be required. Internal DCC financial approval will be required prior to communication to Parties.	
Q4c. If testing is required, does the DCC require support from SEC Parties to complete testing?	**No**
SECMP0016 impacts DCC's internal processes only and, as such, no Parties would be required to participate in testing.	

Q4d. If the Proposed solution was approved which release is the earliest release you would be able to implement the change?	June 2017 [x*]	November 2017 [ ]	February 2018 [ ]
***DCC is able deliver this change as part of a non-standard Release, where the implementation date is at least two months after Authority approval.** DCC advised the Working Group that there may be efficiencies gained from aligning the			

implementation of SECMP0016 with the start of the financial year 2017/2018 (1st April 2017). This is due to the fact that a number of Parties will be required to either arrange an additional cash deposit with DCC or renew their Credit Cover Provisions for the new financial year where these do not take the form of a cash deposit. Implementing SECMP0016 to align with the start of the regulatory year will ensure Parties are able to administer and implement the SECMP0016 changes in parallel to confirming Credit Cover arrangements for the forthcoming year.

Q4e. For each Release what would be the Implementation Cost?	
1st April 2017	No cost.
June 2017	No cost.
November 2017	No cost.
February 2017	No cost.

Operational Costs

Q5a. If this Modification was approved, will there be any impacts on the DCC operational costs?	**No**
DCC does not envisage any change to the operational resources required to run the Credit Cover Review process.	

Q5b. If there are impacts on the DCC Operational Costs, please provide a breakdown of the expected impact
Not applicable.

Any other comments

Q6. Do you have any other comments?	**No**

Assumptions

Q7. Indicate here if any assumptions have been made as part of completing this Detailed Impact Assessment Response
In producing this Impact Assessment, DCC has made the following assumptions: 1. The Impact on DCC has been assessed based upon the Credit Cover calculation agreed at the Working Group 5 meeting on 19th September (although the model in Annex A provides the facility to amend the proposed calculation to assist in informing the Working Group's Refinement of SECMP0016); and *2.* The longest period of time DCC would be exposed to a cash flow shortfall is 2 months (2 months being the length of time elapsed between the date of an Event of Default and the payment of socialised Unrecovered Bad Debt Payments to DCC by all Compliant Parties).

Attachments and/or Appendices

Q8. Have you included any additional information as Attachments or Appendices to this response?	**Yes**
DCC has provided a data model (Annex A) to support the Working Group's refinement and assessment of the appropriate solution. *Annex A: SECMP0016 Credit Cover Scenarios & Risk Profiles (data model)*	